Macroeconomics in Modules 5th edition Krugman Test Bank

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Name:_____ Class:_____ Date:_____

Module 1

1. Which of the following topics would be studied in macroeconomics?
   a. changes in airline travelers' vacation plans due to changes in the prices of airline tickets
   b. the effects of a tax reduction on the profits of Home Depot
   c. recessions
   d. unemployment among workers displaced as more firms move to cloud-based applications

ANSWER: c

2. The basic concern of microeconomics is to:
   a. ensure that the government pursues the public good during pandemics.
   b. make sure small businesses thrive.
   c. study the choices people make, given unlimited wants.
   d. determine how unlimited resources can best be used to satisfy limited wants.

ANSWER: c

3. How people choose among the alternatives available to them is:
   a. not part of the study of economics.
   b. impossible to describe.
   c. studied in microeconomics.
   d. unimportant to the study of microeconomics.

ANSWER: c

4. Which of the following is a microeconomic topic?
   a. reasons why a consumer buys more cheese
   b. reasons why inflation is rising
   c. what the government will do to address unemployment
   d. the effect of the budget deficit on the rate of interest

ANSWER: a

5. Scarcity occurs in economics because:
   a. we often do not have sufficient resources to achieve our objectives.
   b. the wants of individual consumers are limited.
   c. there are poor people even in rich countries.
   d. taxes keep prices higher than they would otherwise be.

ANSWER: a

6. If resources are scarce:
   a. they are insufficient to provide enough goods and services to satisfy all human material wants and needs.
   b. there are not enough of them for firms to produce goods and services.

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c. they are probably overvalued by consumers.
d. their supply is unlimited.

ANSWER: a

7. A central and fundamental theme in economics is that:
a. for me to have something, someone else must be willing to give it up.
b. the United States is a rich country, but we are simply not aware of it.
c. there are not enough resources available to satisfy all the ways a society wants to use them.
d. we can build as much as we want, since resources are unlimited.

ANSWER: c

8. In a society with a market economy, decisions made by society as a whole emerge from many individual choices. Which of the following exemplifies this phenomenon?
a. The volume of work performed by the American workforce.
b. The market demand for oranges.
c. Whether a firm is profitable enough to remain in business.
d. All of these exemplify this phenomenon.

ANSWER: d

9. _____, that is, decisions by an individual about what to do and what not to do, is the basis for economics.
a. Opportunity cost
b. Utility
c. Marginal choice
d. Individual choice

ANSWER: d

10. _____ forces us to make choices.
a. Opportunity cost
b. Marginal decision making
c. Scarcity
d. Market failure

ANSWER: c

11. In our interactions with other consumers (or individuals), we are forced to make choices because of:
a. utility and demand exploitation.
b. efficiency considerations.
c. scarcity.
d. decisions made at the margin.

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ANSWER: c

12. Scarcity exists when:
    a. making choices among two or more alternatives is unnecessary (i.e., there is no opportunity cost).
    b. individuals can have as much of any good as they wish without giving up anything else.
    c. individuals can have more of a good only by giving up something else.
    d. the trade-off that arises because resources are limited is not a consideration.

ANSWER: c

13. There are many freshwater lakes in the United States. However, freshwater is scarce because:
    a. it has no alternative uses.
    b. there is not enough of it to meet all needs.
    c. the government limits its use through regulations.
    d. it has a high opportunity cost.

ANSWER: b

14. Fresh water is considered a scarce good because:
    a. not enough of it is available to meet all needs.
    b. it has limited uses.
    c. most fresh water is hard to access.
    d. it is mostly privately owned.

ANSWER: a

15. The problem of determining what goods and services society should produce:
    a. exists because we can produce any amount of a good we need or want, making choice difficult.
    b. exists because there are not enough resources to provide all the goods and services that people want.
    c. would not exist if all levels of government would agree to supply goods and services to those that do not have enough.
    d. would not exist if a central planning bureau were to decide how to allocate resources.

ANSWER: b

16. Which resource does NOT pertain to the production of avocados?
    a. fertile land on which to grow avocado trees
    b. workers to tend the land and water the plants
    c. equipment to aid planting and harvesting avocado trees
    d. income obtained from the sale of avocados

ANSWER: d

17. A resource is anything that:
    a. can be used to produce of goods and services.

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b. you pay for.
c. must be given up to get something else.
d. can be consumed readily by a market participant.

ANSWER: a

18. We have to make choices because:
a. we have unlimited income and must decide what to purchase.
b. the resources available to us are scarce.
c. the resources we would like to use in production are infinite.
d. with good planning, trade-offs can be avoided.

ANSWER: b

19. A sushi chef prepares a California roll for a customer. Which of the following factors is physical capital?
a. the sushi chef
b. the knife use to cut the sushi
c. the ingredients used to prepare the dish
d. the skills the sushi chef has acquired that enables him to perform this feat

ANSWER: b

20. Susan is attending university and majoring in actuarial mathematics. Susan is thereby accumulating:
a. land.
b. labor.
c. physical capital.
d. human capital.

ANSWER: d

21. Which item is NOT an example of a resource?
a. land
b. employees working for wages at your local McDonald's
c. a factory used to make airplane engines
d. a loaf of bread purchased at your local grocery store

ANSWER: d

22. Which factor can BEST be described as a resource used to produce iPhones?
a. money from investors
b. wages of software engineers who code iPhones
c. software engineers who code iPhones
d. taxes on profits from the sale of iPhones

ANSWER: c

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23. Opportunity cost is:
    a. the amount you pay to take advantage of a lucrative opportunity.
    b. a payment not made for a product.
    c. the benefit derived from a product.
    d. the value of the best alternative forgone in making a choice between alternatives.

ANSWER: d

24. The opportunity cost of a good is:
    a. smaller during periods of economic recession.
    b. equal to the monetary cost of the good.
    c. larger during economic booms.
    d. what is given up to acquire the good.

ANSWER: d

25. Whenever a good is purchased:
    a. the cost of the good is its opportunity cost.
    b. the cost of the good is easy to measure in terms of the price paid for it.
    c. overall efficiency increases.
    d. scarcity will increasingly constrain the future availability of the good.

ANSWER: a

26. You can spend $300 on either a pair of new Air Jordan sneakers or a new skateboard. If you choose to buy the Air Jordans, the opportunity cost is:
    a. $300.
    b. your enjoyment of the new skateboard.
    c. both the $300 and your enjoyment of the new skateboard.
    d. impossible to determine.

ANSWER: b

27. Emma spends $40,000 for one year's tuition at university. The opportunity cost of one year at university for Emma is:
    a. $40,000.
    b. whatever she would have purchased with the $40,000 had she not attended university.
    c. whatever she would have earned had she not attended university.
    d. whatever she would have purchased with the $40,000 plus whatever she would have earned had she not attended university.

ANSWER: d

28. If the state of New York allocates additional spending on after-school programs for at-risk youths, then the

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opportunity cost of these expenditures is:

a. zero, if the state is running a budget surplus.
b. the dollar amount of the additional spending.
c. relevant only if taxes must be raised to fund the spending.
d. the value of alternative expenditures forgone in making this allocation.

ANSWER: d

29. Ralph is offered a free ticket to a Yankees game—a ticket he cannot resell. His opportunity cost of going to the baseball game is:

a. zero—the ticket was free.
b. the price listed on the ticket.
c. whatever Ralph would have done had he not gone to the game.
d. the price listed on the ticket and whatever Ralph would have done had he not gone to the game.

ANSWER: c

30. A new Subway location has offered a prize—a free meal (valued at $5) each week for a year—to its first 100 customers on opening day. Isabella camped out for 48 hours before the opening to be one of the first 100 customers and successfully obtained the prize. The cost to Isabella of obtaining the "free meal a week for a year" prize was:

a. zero, since it was free.
b. $260—the amount that would have to be paid if it were not free.
c. whatever else she would have done with the 48 hours.
d. the amount that would have to be paid if it were not free plus whatever else she would have done with the 48 hours.

ANSWER: c

31. King Taco charges the same price for everything on its menu: $5 will buy a taco, a burrito, or nachos. You buy the burrito and think that if you had not purchased the burrito, you would have purchased the taco. The opportunity cost of the burrito is:

a. $5.
b. your forgone enjoyment of the taco.
c. $5 and your forgone enjoyment of the taco.
d. $5 and your forgone enjoyment of the taco and the nachos.

ANSWER: b

32. For an economist, the cost of a good is:

a. the dollar amount of money you paid to get it.
b. what you gave up to get it.
c. always equal to the true market value of the good.
d. the quantity of resources used to produce it.

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ANSWER: b

33. The BEST measure of the opportunity cost of a choice is:
    a. the dollar value of the cost of that choice.
    b. whatever you gave up to make that choice, even if no monetary costs are involved.
    c. the cost associated with not taking full advantage of the opportunity offered by that choice.
    d. the salary you did not make as a result of the choice.

ANSWER: b

34. The cost of postponing the Tokyo Olympics to 2021 in the wake of the Covid-19 virus outbreak _____ an opportunity cost of hosting the 2020 Olympic Games _____.
    a. is not; because few people attending the 2020 Olympics will spend much time outside Olympic venues
    b. is; if the costs of the Tokyo postponement are equal to a significant percentage of the total amount spent by Tokyo taxpayers to host the 2020 Olympics
    c. is; if the cost of postponing the Tokyo games would not occur unless Tokyo was hosting the 2020 Olympic games.
    d. is not; because the cost of postponing the Tokyo Olympics is a necessary expense

ANSWER: c

35. While buying refreshments for an upcoming party, you notice that a six-pack of Bud Lite Beer costs $6 and that a six-pack of Miller Lite Beer costs $8. You buy the six-pack of Miller Lite Beer, although you wonder if maybe two six-packs of Bud Lite Beer would have been a better choice. The opportunity cost of the Miller Lite Beer is:
    a. $8.
    b. a six-pack of Bud Lite Beer.
    c. two six-packs of Bud Lite Beer.
    d. $8 and the six-pack of Bud Lite Beer.

ANSWER: c

36. Your sister tells you, “I haven’t been running the half marathon as before because I’m concerned about reinjuring my knee. See, there is always a cost to doing something. But if you don’t do anything, then there is no cost.” Your sister does not understand the economic concept of:
    a. scarcity.
    b. efficiency.
    c. opportunity cost.
    d. marginal analysis.

ANSWER: c

37. Savannah’s grandparents are excited about finally paying off their car because, as they say, “Our cost of driving is now zero.” Savannah should explain to them the economic concept of:

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a. marginal analysis: if the additional cost of driving is zero, then their additional benefit is also zero.
b. opportunity cost: by driving the car, they are giving up the opportunity to sell it, buy a smaller one, and pocket the difference.
c. efficiency: if their cost of driving is now zero, they should let Savannah and her sisters drive the car whenever they want. Savannah is better off, and her grandparents aren't hurt.
d. equity: it is unfair that some people are still paying their car loans, while others are not.

ANSWER: b

38. The University of Georgia recently received a large donation from a wealthy alumnus in the form of an old heritage mansion. The university plans to use the mansion for faculty parties and to house distinguished guests. The opportunity cost of the mansion to the university is:
a. zero, because it was a gift.
b. the original cost of building the mansion.
c. the amount the university would receive if it sold the mansion.
d. the cost of catering parties at the mansion.

ANSWER: c

39. Ryanair is considering offering discounted flights from New York to Honolulu. The airline is offering a free round-trip ticket to Hawaii to the first 600 people who show up at the new Honolulu counter in the airline's main office, starting Monday, the first day of business. You arrive 24 hours before it is scheduled to open to be sure to get the free ticket, and you buy food from airport vendors while waiting in line. You successfully obtain the ticket. What was the cost to you of obtaining the ticket?
a. the actual value of the ticket
b. the cost of food while you waited in line
c. the cost of food while you waited in line and the opportunity cost of the time you spent in line
d. the actual value of the ticket and the cost of food while you waited in line.

ANSWER: c

40. A friend comes up to you and offers you a free ticket to a Yankees game that night, and you decide to attend the game. The game takes five hours and costs you $25 for transportation. If you had not attended the game, you would have worked at your part-time job for $12 an hour. What is the cost to you of attending the game?
a. The cost is zero—the ticket is free.
b. $85
c. $60
d. $55

ANSWER: b

41. For a student who owns his or her own apartment near the university campus and so does not need to live in a dorm, the cost of going to university is:
a. tuition and the cost of housing.

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b. tuition, the cost of housing, and the cost of school supplies.

c. tuition, the cost of school supplies, and forgone income.

d. forgone income only.

ANSWER: c

42. You have $5 to spend on a vending machine snack. A pack of gum will cost you $2.50, and a chocolate bar will also cost you $2.50. If you choose to buy the pack of gum, the opportunity cost of the gum is:

a. $2.50 plus the enjoyment you would have received from the chocolate bar.

b. $5 minus the enjoyment you received from the pack of gum.

c. $2.50.

d. the enjoyment you would have received from the chocolate bar.

ANSWER: d

43. A university student faces the difficult decision of how to spend one hour tonight. She could babysit her professor's child at an hourly wage of $6; she could work at the college library at a wage of $12; or she could finish her economics homework assignment. If she chooses to complete her homework assignment, she has incurred an opportunity cost equal to:

a. $6.

b. $12.

c. $18.

d. $0.

ANSWER: b

44. If you decide to go to Daytona with your friends during spring break, you cannot go to London with your brother in the summer. Which economic principle does this statement BEST represent?

a. The true cost of something is its opportunity cost.

b. "How much" is a decision at the margin.

c. People usually respond to incentives, exploiting opportunities to make themselves better off.

d. There are gains from trade.

ANSWER: a

45. You decide to join the football team, but this means you can't join the basketball team, as the practices for the two teams occur at the same time. Which economic principle does this statement BEST represent?

a. The true cost of something is its opportunity cost.

b. "How much" is a decision at the margin.

c. People usually respond to incentives, exploiting opportunities to make themselves better off.

d. There are gains from trade.

ANSWER: a

46. The student center on campus has tacos, nachos, or club sandwiches for lunch, and they all cost the same.

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You decide to have a club sandwich today, but if they were out of club sandwiches, you would have had nachos. Your opportunity cost of buying a club sandwich is your foregone enjoyment of the:

a. club sandwich.
b. nachos.
c. taco.
d. nachos and the taco.

ANSWER: b

47. The economic way of thinking entails:

a. the analysis of costs, benefits, and trade-offs.
b. the analysis of prices and opportunity costs.
c. making choices at the margin.
d. distinguishing between microeconomics and macroeconomics.

ANSWER: c

48. A choice made at the margin:

a. involves distinguishing between microeconomics and macroeconomics.
b. is an analysis of costs, benefits, and trade-offs.
c. is a choice regarding whether to do a little more or a little less of an activity.
d. involves comparing the costs and benefits of an activity.

ANSWER: c

49. Which decision is the BEST example of making a choice at the margin?

a. buying a new backpack
b. not renewing your gym membership
c. drinking another cup of matcha tea
d. attending university

ANSWER: c

50. You decide whether to eat one more slice of cheesecake based on how hungry you feel. Which economic principle does this statement BEST represent?

a. Choices are necessary because resources are scarce.
b. The true cost of something is its opportunity cost.
c. “How much” is a decision at the margin.
d. People respond to incentives, exploiting opportunities to make themselves better off.

ANSWER: c

51. The notion of decisions at the margin concerns:

a. making incremental choices.

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b. choosing all or none of something.
c. buying stocks on margin.
d. making difficult choices.

ANSWER: a

52. Scarlet is a manager at the local Apple store. In determining whether to buy a few additional iPhones, Scarlet chooses at the margin when she compares
a. the total revenue from sales of iPhones to the total cost of buying iPhones.
b. the extra revenue from selling a few additional iPhones to the extra cost of buying those iPhones.
c. the extra revenue from selling a few additional iPhones to the average cost of buying those iPhones.
d. the revenue from selling iPods to the revenue from selling iPhones.

ANSWER: b

53. The BEST example of choosing at the margin is deciding whether to:
a. buy a new tablet.
b. change your job.
c. eat another burger.
d. attend a Lakers game.

ANSWER: c

54. Ivanka will make $20 by working an additional hour, but she will lose an hour of studying for her economics test. Ivanka decides to study rather than work. Ivanka's choice indicates that she:
a. values an additional hour of studying more than the $20 she would earn working.
b. values an hour of studying less than the $20 she would earn working.
c. does not understand that there is no benefit from studying.
d. knows that she can make up the missing hours once the test is over.

ANSWER: a

55. Thinking in economic terms, when Abigail decides whether to eat another banana split, she:
a. considers only the price of the banana split.
b. considers only how much additional exercise she will need to work off the calories gained by eating another banana split.
c. compares all of the benefits and costs of eating another banana split.
d. considers whether she can do so without anyone else noticing.

ANSWER: c

56. For which decision would marginal analysis be MOST relevant?
a. Should I go to university or get a job after finishing high school?
b. Should I eat another waffle?
c. Should I use my $200,000 inheritance as a down payment on a house or invest in the stock market?

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d. Should I get married?

ANSWER: b

57. For which decision would marginal analysis be MOST relevant?
a. Should Georgina accept a job with American Airlines or with the Humane Society?
b. Should Martin go to graduate school after finishing university?
c. Should Natalia emigrate to Canada or stay in Spain?
d. Should Abby work an additional hour or take a short nap?

ANSWER: d

58. Which of the following questions would NOT involve marginal analysis:
a. How many minutes should I exercise?
b. How many workers should I hire?
c. What is an acceptable rate of negative side effects from a new medicine?.
d. Should I attend college?

ANSWER: d

59. Which of the following questions would NOT involve marginal analysis:
a. How many minutes should I train at the gym?
b. How many workers should I fire?
c. What is an acceptable rate of absorption of a new medicine into the bloodstream?
d. Should I attend the Lakers game?

ANSWER: d

60. Marginal analysis:
a. refers to decisions about whether or not to engage in a particular activity.
b. is primarily used when making an either–or choice.
c. is used primarily when deciding how much of an activity to undertake.
d. does not help when making a "how much" choice.

ANSWER: c

61. Your neighbor is planting her garden one afternoon when she stops to have a beer. She drinks one glass and is now deciding whether to have a second glass. This is an example of _____ analysis.
a. marginal
b. individual choice
c. economic
d. equilibrium

ANSWER: a

62. After eating three churros, you decide to eat one more. Your choice is a(n):

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a. opportunity-cost decision.
b. either–or decision.
c. equity decision.
d. marginal decision.

ANSWER: d

63. You are planning to study 12 hours this week for your mathematics final and are considering studying a 13th hour. You should:
a. compare the benefits of one more hour of study with the cost of one less hour of sleep.
b. compare the benefits of one more hour of study with the cost of one less hour of studying calculus.
c. compare the benefits of one more hour of study with the cost of one less hour of work at Starbucks, your part-time job.
d. make your decision based on the cost of the next best alternative use of your time compared to the benefit of one more hour of study.

ANSWER: d

64. Marginal analysis is the study how of individuals decide:
a. whether to live on the margins of society.
b. whether to do a bit more of an activity or a bit less of it.
c. whether to attend a university or not.
d. how large a down payment to make when buying a new house.

ANSWER: b

65. You are analyzing a trade-off when you compare the _____ and _____ of doing something.
a. direct costs; opportunity costs
b. marginal benefits; total benefits
c. costs; benefits
d. money costs; marginal benefits

ANSWER: c

66. For which decision would marginal analysis be MOST relevant?
a. Should I invest my inheritance in real estate or put it all in the stock market?
b. After I graduate from college, should I go to graduate school or go directly into the job market?
c. What is the right amount of hours to study for my exam?
d. Should I get a dog?

ANSWER: c

67. Some football fans leave the game at the two-minute warning (especially when the outcome is pretty assured) to avoid the postgame traffic. These fans are:
a. not considering that they have already paid for their tickets.

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b. making a marginal decision by comparing the cost of leaving early to the benefit of leaving early.
c. thinking only about the benefits of avoiding traffic.
d. underestimating the value of staying for the rest of the game.

ANSWER: b

68. Which question is an example of marginal analysis?
a. How many more houses can I build if I hire another building crew?
b. How do tax cuts change investment opportunities to middle income Americans?
c. What would be the impact of a trade embargo with China on labor costs?
d. Should a commuter take the subway to work instead of driving.

ANSWER: a

69. Which decision is an example of marginal analysis?
a. ordering Mexican food rather than eating leftover meatloaf
b. deciding whether to eat one more taco
c. using a coupon to save $2 on a burrito
d. writing a check to pay for Mexican delivery rather than using a credit card

ANSWER: b

70. Which statement demonstrates how people respond to incentives to make themselves better off?
a. More students major in mathematics when they hear that the salaries of statisticians are rising.
b. Students are assigned lab partners through a lottery system.
c. Students are encouraged to donate blood because it is the right thing to do.
d. Students and faculty are encouraged to wear school colors during annual alumni week to support the college athletic teams.

ANSWER: a

71. Given that people usually exploit opportunities to make themselves better off, which of the following policies is MOST likely to reduce road congestion in Los Angeles (the worst traffic city in America)?
a. a limited number of free parking passes for the first 100 who arrive prior to 6 A.M.
b. a toll road that requires each car to pay a congestion fee to enter the city center
c. an increase in the price of bus fare to and from the city
d. allowing electric cars to ride in the reserved bus lanes

ANSWER: b

72. Which method will MOST effectively encourage people to reduce their carbon footprint, given that people usually exploit opportunities to make themselves better off?
a. appealing to consumers to be good citizens
b. publicizing the environmental benefits of a reduced carbon footprint

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c. imposing a tax per unit of estimated car emissions generated

d. advertising different ways an individual can reduce one's carbon footprint

ANSWER: c

73. Which method of discouraging speeding is likely to be MOST effective, given that people usually exploit opportunities to make themselves better off?

a. increasing the posted speed limit

b. increasing the fines associated with speeding

c. reminding drivers of the dangers of speeding

d. asking drivers to reduce speed because it makes the roads safer

ANSWER: b

74. In an attempt to reduce accidental driving deaths, some cities have offered money to people who phone in illegal driving behaviors to a telephone tip line. Under this program, the government uses _____ to influence behavior.

a. financial incentives

b. law

c. marginal analysis

d. the gains from trade

ANSWER: a

75. Because people usually exploit opportunities to make themselves better off, if the price of gasoline falls and stays low for an extended period (as has been generally seen in the time of the coronavirus pandemic), we expect people to:

a. decrease the number of miles they drive.

b. buy smaller and more fuel-efficient cars.

c. use less public transportation.

d. ride their bicycles more.

ANSWER: c

76. Because people usually exploit opportunities to make themselves better off, if the price of gasoline falls and stays low for an extended period, we expect people to:

a. reduce their reliance on gasoline-powered cars.

b. buy larger and less fuel-efficient cars.

c. use more public transportation.

d. ride bicycles.

ANSWER: b

77. Given that people usually exploit opportunities to make themselves better off, to encourage people to retire sooner, the government could:

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a. increase Social Security benefits.
b. decrease the tax rate on older, unretired individuals.
c. eliminate tax benefits for retirees
d. decrease Social Security benefits.

ANSWER: a

78. Because people usually exploit opportunities to make themselves better off, to encourage young people to attend a university in their hometown or home state, local and in-state universities can:
a. charge higher tuition to in-state students.
b. award special scholarships to out-of-state students.
c. offer high-interest loans to in-state students.
d. offer lower tuition to in-state students.

ANSWER: d

79. Given that people usually exploit opportunities to make themselves better off, which method of energy conservation is likely to be MOST effective?
a. appealing to individuals to be good citizens
b. asking citizens to voluntarily reduce their energy consumption
c. imposing a per-unit tax on energy consumption
d. advertising the negative environmental impact of overuse of energy

ANSWER: c

80. Economists tend to believe that to change people's behavior, you must:
a. make the cost associated with the behavior small.
b. change people's incentives.
c. legislate that people act so as to bring about a desired outcome.
d. appeal to people's general societal values.

ANSWER: b

81. Which statement is true, according to standard economic theory?
a. Resources are scarce when they can satisfy everyone's wants.
b. The true cost of a choice is what you must give up when choosing between alternatives.
c. People typically do not make choices that will make them better off.
d. Rational people use trade-off analysis when making "how much" decisions.

ANSWER: b

82. The penthouse apartment in most high-rise apartment buildings usually costs more to rent than other apartments. This BEST illustrates the economic concept of:
a. specialization.

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b. scarcity.
c. equilibrium.
d. opportunity cost.

ANSWER: b

83. In Douglas County, Washington, apple production is limited by the number of acres available for agricultural production. Which economic concept does this statement BEST represent?
a. scarcity
b. marginal analysis
c. equilibrium
d. opportunity cost

ANSWER: a

84. You like to read *GQ* (*Gentlemen's Quarterly*) and *Golf Digest.* You have only $6 to spend and can buy only one magazine, so you buy only *Golf Digest.* Which economic concept does this statement BEST represent?
a. scarcity
b. equilibrium
c. marginal analysis
d. specialization

ANSWER: a

85. Samsung finds it difficult to hire enough skilled software engineers to program the popular Galaxy cell phone. Which economic concept does this statement BEST represent?
a. scarcity
b. specialization
c. ceteris paribus
d. trade-off

ANSWER: a

86. In Texas, there has been a drought, and rural communities are fighting with urban areas over water. Which economic concept does this statement BEST represent?
a. scarcity
b. specialization
c. incentives
d. equilibrium

ANSWER: a

87. Which statement is among the four principles that underlie individual choice?
a. Choices are necessary because resources are not scarce.
b. Overall spending sometimes gets out of line with the economy's productive capacity.

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c. "How much" is a decision at the margin.

d. People usually do not respond to incentives, exploiting opportunities to make themselves better off.

ANSWER: c

88. When the Chicago city manager receives complaints that the municipal courts are not fully accessible to individuals with disabilities, she responds that the $1 million improvement needed to address the problem will not happen because "that money could be spent building lavatory space for people with disabilities." Which economic principle does this statement BEST represent?

a. Markets move toward equilibrium.

b. The true cost of something is its opportunity cost.

c. "How much" is a decision at the margin.

d. When markets don't achieve efficiency, government intervention can improve society's welfare.

ANSWER: b

89. The student center on campus has tacos, nachos, or club sandwiches for lunch, and they all cost the same. You love club sandwiches and nachos, but you decide to have a club sandwich today. If the student center were out of club sandwiches, you would have bought nachos. Which economic principle does this statement BEST represent?

a. The true cost of something is its opportunity cost.

b. "How much" is a decision at the margin.

c. One person's spending is another person's income.

d. There are gains from trade.

ANSWER: a

90. After running 5 miles at the school track, Erik decides to run one more lap around the track before lifting weights. Which economic principle does this statement BEST represent?

a. Choices are necessary because resources are scarce.

b. The true cost of something is its opportunity cost.

c. "How much" is a decision at the margin.

d. There are gains from trade.

ANSWER: c

91. Sabrina has gone out to lunch three times this week. She has some extra money, so she decides to go out to lunch a fourth time. Which economic principle does this statement BEST represent?

a. Choices are necessary because resources are scarce.

b. The true cost of something is its opportunity cost.

c. "How much" is a decision at the margin.

d. There are gains from trade.

ANSWER: c

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92. A busy mechanic needs to decide whether to stay at the garage and work on one more car or to go meet his wife for dinner. This is an example of:

a. equity versus efficiency.
b. how one person's spending is another person's income.
c. economic incentives.
d. marginal analysis.

ANSWER: d

93. Which principle underlies the economics of individual choices?

a. There are gains from trade.
b. Markets move toward equilibrium.
c. People usually respond to incentives, exploiting opportunities to make themselves better off.
d. Resources should be used as efficiently as possible to achieve society's goals.

ANSWER: c

94. Which statement is NOT one of the four principles of individual choice?

a. "How much" is a decision at the margin.
b. The true cost of something is its opportunity cost.
c. People take advantage of opportunities to make themselves better off only if there is no risk involved.
d. Choices are necessary because resources are scarce.

ANSWER: c

95. Which statement is an example of individual choice?

a. The government of Colorado announces plans to ban public gatherings without a permit.
b. Lorelei spends her allowance on candy to give to her sister.
c. France decides to withhold aid to Nigeria.
d. Libya decides to accept U.S. aid for humanitarian efforts.

ANSWER: b

96. To make choices, people must

a. take opportunity cost into account when considering alternative actions.
b. have limited resources.
c. be free to choose as they wish, without constraint.
d. have unlimited access to information at no cost.

ANSWER: a

97. Delaware schools offered cash bonuses to students who scored high on the state's standardized exams (Delaware Comprehensive Assessment System, or DCAS). The cash bonuses are motivated by which economic principle?

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a. Choices are necessary because resources are scarce.
b. The true cost of something is its opportunity cost.
c. "How much" is a decision at the margin.
d. People usually respond to incentives, exploiting opportunities to make themselves better off.

ANSWER: d

98. Grades are low in your economics class (as they tend to be), so your professor offers an optional assignment to boost your grade. Most students turn in the assignment. Which economic principle does this scenario BEST illustrate?
a. The true cost of something is its opportunity cost.
b. "How much" is a decision at the margin.
c. People usually respond to incentives, exploiting opportunities to make themselves better off.
d. There are gains from trade.

ANSWER: c

99. In Los Angeles, LA Fitness (with over 700 locations) is offering a free one-year membership for the person who attends the most CrossFit classes in March. As a result, more people attend CrossFit classes in March. Which economic principle does this scenario BEST illustrate?
a. The true cost of something is its opportunity cost.
b. People usually respond to incentives, exploiting opportunities to make themselves better off.
c. There are gains from trade.
d. Markets move toward equilibrium.

ANSWER: b

100. Specialization typically leads to:
a. greater economic stability.
b. gains from trade.
c. higher living standards for all.
d. overall higher prices.

ANSWER: b

101. Which book analyzes the advantages of specialization, using an eighteenth-century pin factory for illustration?
a. *Free to Choose*, by Milton Friedman
b. *The Wealth of Nations*, by Adam Smith
c. *Das Kapital*, by Karl Marx
d. *The General Theory*, by John Maynard Keynes

ANSWER: b

102. _____ wrote _____ , a book that many credit with establishing economics as a discipline.

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a. Milton Friedman; *Free to Choose*
b. Adam Smith; *The Wealth of Nations*
c. Karl Marx; *Das Kapital*
d. John Maynard Keynes; *The General Theory*

ANSWER: b

103. Increases in total output realized when individuals specialize in particular tasks and trade are known as:
a. gains from trade.
b. the profits obtained from sales of a good or service.
c. marginal analysis in the field of specialization.
d. a trade-off between labor and capital.

ANSWER: a

104. Gains from trade arise because of:
a. specialization in production.
b. specialization in consumption.
c. marginal analysis in production.
d. individual choice and opportunity cost.

ANSWER: a

105. Gains from trade exist for:
a. individuals only.
b. states only.
c. countries only.
d. all of the above.

ANSWER: d

106. According to economic models of trade, when the United States and Canada trade:
a. the United States will be worse off because wages in Canada are higher.
b. Canada will be worse off because the United States is a stronger economic power.
c. both Canada and the United States will be better off.
d. both Canada and the United States will be worse off.

ANSWER: c

107. Consider a small village in rural Pennsylvania. Each individual relies on cooperation with others to further the collective good. Suppose that, instead, each individual were required to be self-sufficient. What do you think would happen to overall living standards in such a scenario?
a. living standards would fall.
b. living standards would fall for some individuals but rise for others.

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c. living standards would rise.
d. it's impossible to say how living standards would be affected.

ANSWER: a

108. Which statement is true?
a. Resource scarcity is not a major economic concern in rich countries.
b. Most opportunity costs are zero.
c. The economy can be in equilibrium when all individuals would be better off taking different actions.
d. Very talented individuals, who can do most things better than most people, would benefit from specializing in one thing.

ANSWER: d

109. Specialization and trade lead to:
a. individuals learning general skills and earning a salary.
b. an increase in total economic output.
c. lower living standards.
d. higher prices.

ANSWER: b

110. The phrase *gains from trade* refers to the:
a. profits obtained from selling a product.
b. increase in total output from specialization.
c. gains that one obtains by selling goods and services at a higher than average price.
d. gains that one obtains by taking advantage of a temporary discount, or sale price.

ANSWER: b

111. Individuals gain from trade because:
a. of specialization in production.
b. they can sell at a higher price than they buy the good itself.
c. self-sufficiency is the most efficient means of exchange.
d. of the principle of absolute advantage.

ANSWER: a

112. Specialization in production was the starting point for Adam Smith in:
a. *The Wealth of Nations*.
b. *The General Theory*.
c. *Das Kapital*.
d. *Free to Choose*.

ANSWER: a

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113. Two neighbors, Virginia and Susan, are separated by a white fence. Each neighbor has a garden that grows potatoes and lima beans. To gain from trade, _____ can trade _____ to _____ for _____ if _____ is the more efficient grower of lima beans.

a. Virginia; lima beans; Susan; lima beans; Virginia
b. Susan; potatoes; Virginia; lima beans; Susan
c. Susan; lima beans; Virginia; potatoes; Virginia
d. Virginia; lima beans; Susan; potatoes; Virginia

ANSWER: d

114. If equilibrium exists:

a. all individuals must have an unequal amount of income.
b. the price in that market must be held constant.
c. no individual can make themself better off without making another participant in the market worse off.
d. the number of buyers must be greater than the number of sellers.

ANSWER: c

115. If a market is in equilibrium:

a. the equilibrium will persist unless the government intervenes.
b. no individual will be better off doing something different.
c. there are opportunities for some people to make themselves better off.
d. it must be because the government has intervened in the market.

ANSWER: b

116. Equilibrium exists when:

a. output is distributed equitably among market participants.
b. scarcity is completely eliminated.
c. an individual could be better off by choosing a different action.
d. no individual has an incentive to change his or her behavior.

ANSWER: d

117. Which statement is FALSE?

a. The concept of equilibrium requires that all individuals have equal incomes.
b. If a market is in equilibrium, the price in that market will not fluctuate by more than 5%.
c. A market is in equilibrium when the number of buyers equals the number of sellers.
d. All these statements are false.

ANSWER: d

118. Which statement is TRUE?

a. Scarcity is not a major concern in many countries in the world.

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b. Most opportunity costs are determined at the margin.
c. An economic situation is in equilibrium when no individual would be better off taking a different action.
d. Some very talented, skilled individuals should not specialize, since they do not need help.

ANSWER: c

119. In soccer, when one coach decides to send in a substitute, the other manager often adjusts her lineup in response to that change. This sometimes causes the first manager to send in a different player. Once both managers decide that no more player substitutions will benefit their team, the situation has reached:
a. efficiency.
b. equilibrium.
c. equity.
d. the market.

ANSWER: b

120. Economists use the term *equilibrium* to describe a situation when:
a. all individuals have equal incomes.
b. goods are distributed equitably across all market participants.
c. there are equal numbers of buyers and sellers.
d. no individual would be better off taking a different action than the one he or she has chosen.

ANSWER: d

121. A dozen friends get together for a bachelorette party to celebrate an upcoming wedding. If cake is served and cut into 12 pieces of the same size, and each of the 12 attendees gets a slice, the cake distribution is:
a. efficient but not equitable.
b. equitable but not efficient.
c. efficient and equitable.
d. equitable.

ANSWER: d

122. An economy is inefficient if it is:
a. possible to produce more of one good without producing less of another good.
b. possible to produce more of one good only by producing less of another.
c. not possible to produce more of one good without producing less of another good.
d. producing a combination of goods.

ANSWER: a

123. If an economy is in equilibrium, and no individual can improve her or his well-being by taking a different action, then the economy is:
a. equitable.

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b. inefficient.
c. marginally optimal.
d. efficient.

ANSWER: d

124. The trade-off between equity and efficiency is seen in the fact that:
a. allocating resources fairly may increase efficiency.
b. an efficient allocation of resources may lead to an outcome that is least favorable.
c. policies that promote equity often come at a cost of decreased efficiency.
d. allocating resources fairly may lead to efficiency.

ANSWER: c

125. An economy is efficient when:
a. the problem of resource scarcity has been eliminated.
b. output is distributed equally to all participants in the market.
c. all opportunities to make some people better off without making other people worse off have been exhausted.
d. all opportunity costs have been eliminated.

ANSWER: c

126. Economists believe that resources should be used as efficiently as possible to:
a. achieve society's goals.
b. reduce scarcity.
c. eliminate inequity.
d. maximize profits.

ANSWER: a

127. If an economy is NOT efficient, it must be possible to:
a. increase opportunity costs.
b. eliminate inequity.
c. make some people better off without making others worse off.
d. increase the incentives of citizens to pursue their self-interest.

ANSWER: c

128. Resources are used efficiently when:
a. scarcity is no longer an issue.
b. they are also used equitably.
c. every opportunity to make people better off without making others worse off has been seized.
d. gains from trade are still available.

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ANSWER: c

129. Equity means that:
   a. many individuals get an equal share of the goods and services produced.
   b. everyone gets his or her fair share of the goods and services produced.
   c. it is possible to produce more of some goods and services only if fewer other goods and services are produced.
   d. some people obtain a disproportionate share of the goods and services produced, since incomes are not uniform.

ANSWER: b

130. Which statement is a reason that markets usually lead to efficiency?
   a. People are naturally inefficient.
   b. Individuals do not have the proper incentives to offer what people want.
   c. Trade encourages efficiency.
   d. Owing to the inefficient firm paradox, inefficient firms will gain business.

ANSWER: c

131. A decrease in efficiency means that an economy has:
   a. reduced its opportunity costs.
   b. decreased the equity of its distribution of goods and services.
   c. made more people worse off without making others better off.
   d. decreased the incentives of its citizens to follow their own self-interest.

ANSWER: c

132. The trade-off between equity and efficiency occurs because:
   a. efficient allocations of resources are bad for businesses.
   b. allocating resources fairly may lead to inefficiency.
   c. a proper tax must be levied to ensure equity.
   d. efficiency is not a trade-off; it is a politically unpopular ideal.

ANSWER: b

133. Jacob is an economist working at the Federal Reserve Bank of New York. While having lunch with his mother, she asks him to tell her what efficiency means. As a proud son, Jacob tells his mother that economists define an efficient use of resources as a situation in which:
   a. one person can be made better off but only by making another person worse off.
   b. all persons can be made better off without making anyone worse off.
   c. all persons receive an equal share of resources.
   d. all persons are made worse off when one person is made better off.

ANSWER: a

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134. In most cases, economic efficiency is achieved through:
a. incentives built into a market economy.
b. increasing bank regulations.
c. individuals choosing between opportunities that involve no risk.
d. maximizing the utility of equity.

ANSWER: a

135. An economy has achieved _____ if it has not passed up any opportunities to make some people better off without making others worse off.
a. efficiency
b. utility
c. a global maximum
d. equity

ANSWER: a

136. Which statement is TRUE?
a. Efficiency exists when an economy realizes the minimum possible gains from trade, given the available resources.
b. If an economy is efficient, it is possible to make only a few people better off without reducing other individuals' economic welfare.
c. Economic efficiency exists when some of the opportunities to make people better off have been exploited.
d. Free markets usually lead to efficiency but not necessarily equity.

ANSWER: d

137. The incentives built into a market economy ensure that resources are put to good use and that opportunities to make people better off are not wasted. This means that:
a. people often don't fully exploit opportunities to make themselves better off.
b. markets usually lead to efficiency.
c. resources should be used as efficiently as possible to achieve society's goals.
d. markets move toward equilibrium .

ANSWER: b

138. When markets fail:
a. government intervention can be a solution.
b. the market realizes the maximum possible gains from the available resources.
c. there may still be an efficient allocation of resources.
d. goods and services are overproduced.

ANSWER: a

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139. When the Dairy Farmers of America (an agricultural coop) restricts the supply of milk to increase the profits of dairy farmers, the milk market:

a. achieves an efficient outcome because profits increase.
b. achieves an equitable outcome because farmers with greater resources receive profits commensurate with those resources.
c. fails because there is no longer an efficient allocation of resources.
d. fails because there is no longer an equitable allocation of resources.

ANSWER: c

140. Everyone benefits from road signs that provide directions for motorists, yet the marginal benefit to any one individual usually falls short of the marginal cost. This is an example of:

a. individual actions whose side effects are not properly taken into account by the market.
b. one party preventing mutually beneficial trades in an attempt to capture a greater share of resources for itself.
c. the unsuitability of some goods to an efficient allocation by markets.
d. regulating self-interest.

ANSWER: c

141. When markets don't achieve efficiency:

a. they must surely achieve equity.
b. the government must be intervening in the market.
c. the government may intervene to improve society's welfare.
d. firms should lower prices to achieve equilibrium.

ANSWER: c

142. Suppose one parent picks up their child from day care, while the other parent stays home to make dinner. This is an example of the principle that:

a. markets move toward equilibrium.
b. government policies can change spending.
c. there are gains from trade.
d. markets usually lead to efficiency.

ANSWER: c

143. The interaction of individual choices underlies which economic principle?

a. Choices are necessary because resources are scarce.
b. There are gains from trade.
c. "How much" is a decision at the margin
d. People usually respond to incentives, exploiting opportunities to make themselves better off.

ANSWER: b

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144. It is cheaper to buy apples in Washington state than in Austin, Texas because apples need lots of water and a specific climate to thrive. Which economic concept does this statement BEST represent?

a. Government policies can change spending.
b. Markets move toward equilibrium.
c. Resources should be used as efficiently as possible to achieve society's goals.
d. One person's spending is another person's income.

ANSWER: c

145. When a factory closes, why is that bad news for local restaurants?

a. Sales taxes are likely to increase.
b. Unemployed factory workers have lower incomes and are less likely to dine out.
c. Unemployed factory workers are eligible for government unemployment benefits.
d. The opportunity cost of dining out has fallen.

ANSWER: b

146. Because one person's spending is another person's income:

a. if one group in the economy spends more, the incomes of other groups will decrease.
b. if one group in the economy spends less, the incomes of other groups will increase.
c. if one group in the economy spends more, the incomes of other groups will increase.
d. spending by one group does not influence the income of any other group.

ANSWER: c

147. One person's spending is another person's:

a. loss.
b. income.
c. physical capital.
d. opportunity cost.

ANSWER: b

148. Buying locally sourced vegetables from community growers benefits the entire community because:

a. it is not possible to be self-sufficient when it comes to growing food.
b. this will eliminate the opportunity cost of buying food.
c. buying locally will decrease human capital in the community.
d. one person's local spending will increase another local person's income.

ANSWER: d

149. If Isabella drives to a Kansas City, 120 miles from Manhattan, Kansas (home of Kansas State University) to do her back-to-school shopping, this will:

a. hurt Isabella's community because Isabella's spending will be income for people in the large city.

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b. hurt the city because Isabella will take the goods that she purchases back home to her small town.
c. help Isabella's community because Isabella's shopping in the big city leaves more goods for the other small-town residents to buy.
d. help the city because people from small towns usually buy things that people in big cities don't want.

ANSWER: a

150. A local hardware store benefits when a new automobile plant moves to town and hires workers because the:
a. new jobs at the plant will increase local incomes, some of which will be spent at the hardware store.
b. new plant will eliminate scarcity in the area.
c. presence of a new plant will guarantee that resources are used efficiently.
d. local circular flow will be smaller with a new plant in town.

ANSWER: a

151. If the value of homes in Seattle increases, and as a result, the people of Seattle spend more, incomes in Seattle will:
a. decrease.
b. increase.
c. increase and decrease by the same amount, leaving overall income unchanged.
d. be unaffected.

ANSWER: b

152. If the value of beach-front property in Myrtle Beach decreases, the people of Myrtle Beach will likely spend _____, causing incomes in Myrtle Beach to _____.
a. more; increase
b. more; decrease
c. less; increase
d. less; decrease

ANSWER: d

153. Which statement demonstrates one of the three principles of economy-wide interactions?
a. A student chooses to rent a movie with friends rather than study for an economics quiz.
b. Your roommate offers to pay for movie tickets if you drive to the theater.
c. A city builds a new public park on the grounds of an abandoned warehouse.
d. In 2020, fearing a recession, Congress passes a $4 trillion relief package for workers and businesses affected by the coronavirus pandemic.

ANSWER: d

154. Which statement demonstrates one of the three principles of economy-wide interactions?
a. You decide to rent a movie with friends rather than study for a mathematics test.

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b. Your best friend offers to pay for concert tickets if you pay for dinner.
c. A city builds a new public skateboard park on the grounds of an abandoned school.
d. In 2008, fearing a recession, Congress approved a White House proposal to rebate some taxes for 2007.

ANSWER: d

155. When the economy experiences shortfalls or excesses of spending, government policies can be used to address the imbalances. Which statement does NOT address such imbalances, realized during the coronavirus pandemic?

a. The government reduced taxes to help workers.
b. The federal government provided cash payments to workers unemployed due to pandemic.
c. Congress passes a $4 trillion relief package for workers and businesses affected by the coronavirus pandemic.
d. There is fear of recession and uncertainty about the future in a post COVID-19 reality.

ANSWER: d

156. Sometimes, the government varies its spending, depending on the needs of the country. Which economic principle does this statement BEST represent?

a. Resources should be used efficiently to achieve society's goals.
b. When markets don't achieve efficiency, government intervention can improve society's welfare.
c. The true cost of something is its opportunity cost.
d. Government policies can change spending.

ANSWER: d

157. Sabrina and Hayley are roommates. Sabrina hates to clean the bathroom. Hayley will agree to clean the bathroom only if Sabrina vacuums the living room. Which economic concept does this statement BEST represent?

a. When markets don't achieve efficiency, government intervention can improve society's welfare.
b. "How much" is a decision at the margin.
c. One person's spending is another person's income.
d. There are gains from trade.

ANSWER: d

158. Owen and David are brothers. They have to cut the grass and clean the swimming pool before they can go to the high school basketball game. Owen cuts the grass, and David cleans the pool, and they make it to the basketball game on time. Which economic concept does this statement BEST represent?

a. "How much" is a decision at the margin.
b. There are gains from trade.
c. Markets usually lead to efficiency.
d. One person's spending is another person's income.

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ANSWER: b

159. You notice that when a new CrossFit class is offered at the gym at a highly desirable time, many individuals from the evening class go to the new class instead. Which economic principle does this statement BEST represent?

a. Choices are necessary because resources are scarce.
b. The true cost of something is its opportunity cost.
c. People usually respond to incentives, exploiting opportunities to make themselves better off.
d. "How much" is a decision at the margin.

ANSWER: c

160. The Environmental Protection Agency (EPA) regulates how much pollution a factory can emit. Which economic principle does this statement BEST represent?

a. There are gains from trade.
b. "How much" is a decision at the margin.
c. Markets usually lead to efficiency.
d. When markets don't achieve efficiency, government intervention can improve society's welfare.

ANSWER: d

161. Suppose a new law requires that all children be vaccinated against the chicken pox (in addition to their standard vaccinations against polio, measles, mumps, etc.). Further, if you cannot afford to pay for the vaccination, it will be provided free of charge at county hospitals. Which economic principle does this statement BEST represent?

a. People usually respond to incentives, exploiting opportunities to make themselves better off.
b. Resources should be used efficiently to achieve society's goals.
c. When markets don't achieve efficiency, government intervention can improve society's welfare.
d. Government policies can change spending.

ANSWER: c

162. The government of a small town has decided to ban public smoking on public sidewalks (following the lead of California). This is an example of the principle that:

a. one person's spending is another person's income.
b. when markets fail to achieve efficiency, government intervention can improve society's welfare.
c. there are gains from trade.
d. "How much" is a decision at the margin.

ANSWER: b

163. I know when I buy locally sourced produce, I am helping my community. Which economic principle does this statement BEST represent?

a. People usually respond to incentives, exploiting opportunities to make themselves better off.

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b. There are gains from trade.

c. One person's spending is another person's income.

d. Overall spending sometimes gets out of line with the economy's productive capacity.

ANSWER: c

164. Tara had a DVD rental shop, but the store went out of business because no one rents DVDs from stores anymore. Which economic principle does this statement BEST represent?

a. Choices are necessary because resources are scarce.

b. People usually respond to incentives, exploiting opportunities to make themselves better off.

c. Markets move toward equilibrium.

d. One person's spending is another person's income.

ANSWER: d

165. During the coronavirus pandemic of 2020, consumers and producers in the United States dramatically reduced their spending relative to the quantity of goods and services available at the time. Which economic principle does this statement BEST represent?

a. Choices are necessary because resources are scarce.

b. When markets don't achieve efficiency, government intervention can improve society's welfare.

c. Overall spending sometimes gets out of line with the economy's productive capacity.

d. Government policies can change spending.

ANSWER: c

166. In general, when consumers wish to purchase more goods and services than are readily available, the economy tends to see inflation. Which economic principle does this statement BEST represent?

a. There are gains from trade.

b. When markets don't achieve efficiency, government intervention can improve society's welfare.

c. Overall spending sometimes gets out of line with the economy's productive capacity.

d. Government policies can change spending.

ANSWER: c

167. The problem of scarcity applies to

a. all countries, regardless of income levels.

b. advanced economies, since they have high income levels.

c. developing nations, as they do not have to sufficient resources to break the poverty cycle.

d. countries that lack large deposits of natural resources.

ANSWER: a

168. The study of economics arises because of the necessity of choice, and the necessity of choice arises because of the fundamental problem of

a. inefficiency.

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b. opportunity cost.
c. inequity.
d. scarcity.

ANSWER: d

169. Among the main principles of economics is the idea that decision making in conditions of scarcity involves a(n)
a. social cost.
b. opportunity cost.
c. external cost.
d. substitution cost.

ANSWER: b

170. When the state of Texas chooses to build more roads, the resources utilized are no longer available to provide better education facilities. This situation illustrates the concept of
a. marginal analysis.
b. physical capital accumulation.
c. opportunity cost.
d. scarcity.

ANSWER: c

171. A trade-off involves weighing
a. social costs.
b. opportunity costs.
c. external costs.
d. costs and benefits.

ANSWER: d

172. A trade-off occurs when
a. a firm decides to produce soap instead of shampoo.
b. governments use taxes to transfer incomes to lower income earners.
c. universities select applicants for admission.
d. a farm uses a machine to till the soil instead of a horse and plow.

ANSWER: a

173. The term “opportunity cost” implies that
a. no trade-offs are possible.
b. firms do not always exploit opportunities for profit.
c. any decision regarding the use of a resource involves choosing between alternatives.
d. individuals may make decisions that entail high costs.

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ANSWER: c

174. New York City recently decided to change its late-night bus service between Columbia University and downtown Manhattan from a fare-based service to a free service. The incentive to ride the bus thereby _____, since the opportunity cost of riding the bus _____.

a. increases; decreases

b. increases; increases

c. decreases; decreases

d. decreases; increases

ANSWER: a

175. When Brazil engages in trade with Germany,

a. Brazil will be worse off because wages in Germany are higher.

b. Germany will be worse off because Brazil has greater economic power.

c. both Germany and Brazil will be better off.

d. both Germany and Brazil will be worse off.

ANSWER: c

176. Suppose Oliver and Felix each have a different skill set in producing two goods, cloth and corn. Each can produce both goods simultaneously. In general, Oliver is better at producing cloth, and Felix is better at producing corn. Which principle of economics applies best to this scenario?

a. Resources are scarce.

b. Oliver and Felix have no incentive to specialize.

c. Oliver and Felix could switch the goods in which they specialize.

d. Oliver and Felix can both be made better off through specialization and trade.

ANSWER: d

177. If two countries each specialize in the goods to which they are most suited and then trade, which of the following will occur?

a. Income will be distributed more equally in each country.

b. All individuals in each country will be better off.

c. The average well-being of people in both countries will increase.

d. Both countries will experience economic growth.

ANSWER: c

178. If a market is in disequilibrium:

a. it will continue unless the government intervenes.

b. no individual will be better off doing something different.

c. there will be opportunities for people to make themselves better off.

d. it must be because the government has intervened in the market.

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ANSWER: c

179. If a market is in equilibrium:
a. government intervention will be needed to stabilize the economy.
b. no individual will be better off doing something different.
c. there will be opportunities for people to make themselves better off.
d. it must be because the government has intervened in the market.

ANSWER: b

180. If all of the opportunities to make someone better off (without making someone else worse off) have been exploited, an economy is
a. equitable.
b. inefficient.
c. marginally optimal.
d. efficient.

ANSWER: d

181. If an economy has *not* achieved efficiency, there must be ways to:
a. increase opportunity costs.
b. eliminate inequity.
c. make some people better off without making others worse off.
d. increase the incentives for its citizens to pursue their self-interest.

ANSWER: c

182. In most cases, economic efficiency is achieved through:
a. incentives built into a market economy.
b. government intervention.
c. individuals seeking out opportunities that involve no risk.
d. maximizing equity.

ANSWER: a

183. When markets don't achieve efficiency:
a. they achieve equity.
b. the government must be intervening in the economy.
c. the government may intervene to improve society's welfare.
d. they also don't achieve equity.

ANSWER: c

184. The provision of parking passes for people with disabilities often requires that there be more than enough parking spaces for disabled individuals. As a result, many parking spaces are vacant when they could be used by

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individuals without special passes. This scenario illustrates the:

a. trade-off between efficiency and equity.

b. trade-off between efficiency and specialization.

c. ability of markets to produce efficient and equitable outcomes.

d. power of the market to produce equilibrium outcomes.

ANSWER: a

185. Which of the following statements describes efficiency?

I. A situation in which producers make the highest profits possible.
II. A situation in which we cannot produce more of one good without producing less of another good.
III. A situation in which we produce the goods and services that people value most highly.

a. I, II, and III

b. I only

c. I and II

d. II and III

ANSWER: d

186. Market failure occurs when:

a. some people can buy many more goods than others because they have higher incomes.

b. the pursuit of individual self-interest prevents some people from purchasing all the goods they want.

c. the pursuit of individual self-interest makes society worse off.

d. in pursuing their self-interest, some people make less than optimal choices (e.g., buying a purple suit).

ANSWER: c

187. Some products, like gasoline, are taxed. Why would the government interfere in a market that, left untaxed, would probably move to equilibrium on its own?

ANSWER: The government probably understands principle #4, that people respond to incentives. Because the tax raises the price of gasoline, it is reasonable to expect that individuals will drive less, which is better for the environment and sustainability. Principle #9, that when markets don't achieve efficiency, government intervention can improve society's welfare, is also relevant in this case. One could argue that the government is attempting to improve society's welfare by taxing a product whose side effects are not properly accounted for in the market for gasoline. Those side effects include pollution and smog in larger cities as well as global warming.

188. Many college freshmen describe themselves as pre-law, but only a small percentage of these freshmen will ever attend law school. After the first course in politics or torts, many decide to major in another field. Which of the 12 principles is at work here?

ANSWER: Resources are scarce. The scarce resources here are human capital and innate talent in the field. Most of these pre-law freshmen students come to realize that they are not cut out for the law because they underestimated how difficult the topic is to master. The same principle holds for a college basketball player who is not sufficiently skilled to earn a spot on a professional basketball team.

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189. A college student stays up late writing a philosophy paper and as a result sleeps through her morning calculus class. What is the cost of sleeping through the class?

ANSWER: There is no monetary price, but there is most certainly a cost. She might have missed important information in the calculus class. Failure to be present for this information might create difficulties for her on the next calculus exam. Maybe the professor gave a pop quiz during the calculus class, and thus, this sleepy student failed to earn any points on the quiz. Every decision has a cost, even if there is no money actually paid.

190. A college student waits in line for hours to purchase a pair of tickets to a Justin Bieber concert, but a cardiologist does not. Rather than spend hours in line, he purchases a much more expensive ticket through a ticket broker. Why?

ANSWER: For the cardiologist, the opportunity cost of waiting in line for a ticket is time he could use seeing patients, earning perhaps several hundred (if not thousands) of dollars for each hour of specialized expertise. Because he works during those hours, he can afford the higher price. The opportunity cost of the student's time is much lower.

191. A two-year-old child is eating peanuts one at a time from a large box. Even though the child doesn't understand formal economic theory, he knows when to stop eating because he is full. Describe how this child has already mastered marginal analysis.

ANSWER: The child stops eating when he is full because he intuitively knows that the difference between the additional benefit he would receive from the next peanut and the additional cost is zero or even negative.

192. An apartment complex included a fixed price of water in the monthly rent. One day, the city decided to attach a water meter to each individual apartment and charge the tenant for actual water usage. As a result, water usage in the apartment complex went down significantly. Explain this situation using a principle of economics.

ANSWER: By charging each person for actual water usage, the city set up an economic incentive to use less water. Apartment tenants responded, exploiting an opportunity to make themselves better off.

193. You and your sister are taking the same calculus class. When it comes to doing homework assignments, your sister draws beautifully precise graphs, while you are extremely fast but a tad sloppy. Therefore, you and your sister work on the assignments together. Which of the 12 principles is at work here?

ANSWER: There are gains from trade. When you and your sister each specialize in different tasks, the two of you can produce the assignment more efficiently and probably earn a better grade than if you do not specialize.

194. At most grocery stores, there are multiple check-out lines ready to help shoppers pay for their groceries. The length of the wait in each line is about the same. Why?

ANSWER: Customers will always prefer a shorter line to a longer line. If one line begins to shorten significantly, you will see some customers switch from a longer line to the shorter line. Customers will continue to switch lines until there is no perceived advantage to switching. This is the concept of equilibrium—the situation in which no individual would be better off doing something different.

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195. The most efficient way to dispose of chemical waste is to dump it in a nearby river or parcel of land. Why is this illegal?

ANSWER: Because while it may be quite efficient, it is not fair, equitable, or just. If a factory dumps waste into the river, everyone downstream from the factory is exposed to the waste. The many species that rely on the water bear the cost of that dumping. The government has decided that equity trumps efficiency in this case.

196. When Hurricane Katrina devastated the Gulf coast, businesses in the area, even those not physically damaged by the storm, suffered losses. Explain how this illustrates the principle that one person's spending is another person's income.

ANSWER: After the hurricane, very few tourists visited the area. The decrease in spending by tourists caused a decrease in the incomes of the people who live there. In turn, the residents decreased their spending, resulting in lower incomes for businesses and households in the area.

197. By early 2020, the U.S. economy underwent a significant downturn as a result of the coronavirus pandemic. The unemployment rate soared, while many businesses closed. In March 2020, Congress passed a $2 trillion rescue package of increased unemployment benefits and aid to businesses. Which of the 12 principles is at work here?

ANSWER: Government policies can change spending. A tax rebate, or government stipends, provide consumers with additional income that is likely to be spent. Another principle at work here is that one person's spending is another person's income. So, if Janine spends her tax rebate at the shoe store, the owner of the store receives more income, and this income will in turn be spent. Repeated rounds of spending are exactly the stimulus Congress had in mind.

198. The fact that resources are scarce suggests that:

a. people with higher incomes must be especially careful about the choices they make.
b. choices must be made to utilize resources in the best manner possible.
c. additional resources require marginal analysis to allocate them efficiently.
d. there is no shortage of resources.

ANSWER: b

199. One day, Kiera wakes up and in frustration yells, "Decisions, decisions, decisions! Why do I have to make decisions about everything?" Kiera's frustrations stem from the fact that:

a. like all economic agents, she faces constraints and cannot have everything she wants.
b. she doesn't realize she can have everything she wants; she just needs to prioritize.
c. the decisions she makes result in efficient allocations.
d. she really doesn't want anything.

ANSWER: a

200. Aminah has a calculus exam tomorrow. However, a free lecture by one of her favorite authors is taking place this evening. Aminah decides to attend the lecture instead of studying for her exam. Aminah's opportunity cost of attending the lecture is:

a. the time spent listening to the lecture.

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b. not relevant, since no money is involved.

c. the transportation and time cost of getting to the lecture itself plus the reduction in her physics exam grade as a result of not studying tonight.

d. the time spent getting to the lecture.

ANSWER: c

201. Icy-cold Treats operates a fleet of ice cream trucks that drive around neighborhoods selling ice cream and other frozen goodies. The firm is trying to decide whether to buy another ice cream truck to add to its fleet. It has determined that one more truck will add $750 to the firm's revenue but that the truck will also increase the firm's costs by $1,000. Based on marginal analysis, Icy-cold Treats decides:

a. not to purchase the truck, since the costs outweigh the benefits.

b. to purchase the truck, since the benefits outweigh the costs.

c. to purchase the truck, since profits will rise by $250.

d. to purchase several trucks with the same costs and benefits.

ANSWER: a

202. Carrie is getting ready for final exams. She has three exams during the first three days of the exam period. To prepare, she has outlined a schedule that includes reviewing for her first exam on one day, her next exam on the following day, and her third exam on the third day. For each day, she has also allocated some time when she can watch TV or basically do nothing. Which statement BEST explains why Carrie provides some time for leisure?

a. Carrie is not that smart and cannot study that long.

b. Carrie is slacking off, and as a result, her final exam grades will suffer.

c. Carrie realizes that there are benefits to leisure time that outweigh the costs of constant studying.

d. Carrie does not understand the importance of studying.

ANSWER: c

203. Suppose you take the train to work every day. Because you drive to the train station from your house, you must allow for time to park. However, since the train station has free parking for commuters, you often have difficulty finding a spot to take the train at the time you wish. To solve this problem, all commuters should be:

a. given a parking pass along with their ticket.

b. required to pay for parking.

c. barred from parking at the station.

d. exempt from parking lot fees.

ANSWER: b

204. Annabeth promises to do Eugenie's taxes, and in exchange, Eugenie will set up several spreadsheets for Annabeth's household budget. This trade will MOST likely:

a. benefit both individuals.

b. hurt both individuals.

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c. help Annabeth but hurt Eugenie.
d. help Eugenie but hurt Annabeth.

ANSWER: a

205. Overall, trade between England and France will:
a. benefit France more than England.
b. benefit England more than France.
c. benefit both countries.
d. hurt both countries.

ANSWER: c

206. When a market is in equilibrium:
a. individuals are pursuing their self-interest.
b. people have exploited all opportunities to make themselves better off.
c. marginal analysis would dictate buying one more good.
d. the market is not working efficiently.

ANSWER: b

207. If an economy is efficient:
a. all goods are produced at their maximum price and quality.
b. all opportunities to make people better off without making other people worse off have been exploited.
c. resources are still available to produce specific consumer goods that are more desirable.
d. prices are the lowest they can possibly be.

ANSWER: b

208. Many parking lots have specially located spaces for individuals with disabilities. Further, the provision of special parking passes for those with disabilities often requires that there be more spaces available than can be used at any given time. As a result, many of these parking spaces, which take space that could be used for regular parking, are often vacant. This scenario illustrates the:
a. trade-off between efficiency and equity.
b. trade-off between efficiency and specialization.
c. ability of markets to provide efficient and equitable outcomes.
d. power of markets to produce equilibrium outcomes.

ANSWER: a

209. Repeated government intervention in the economy suggests that:
a. markets cannot always produce efficient outcomes.
b. individual actions involve opportunity costs.
c. efficient and equitable outcomes are achieved through government intervention.

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d. markets can efficiently manage the allocation of goods.

ANSWER: a

210. Suppose everyone in a small town decided to save more and spend less. How will this affect an economy? (In macroeconomics, this is called the paradox of thrift.)

a. It will have no impact, since a small town makes up a small portion of an economy.

b. It will decrease the overall level of income, since one person's spending is someone else's income.

c. It will cause the prices of many goods to increase.

d. It will increase the overall level of income, since other groups will spend more.

ANSWER: b

211. People who live in small cities decide to spend more in their day-to-day activities. This will MOST likely lead to:

a. less income for other people

b. more income for other people.

c. no impact on other people.

d. inflation.

ANSWER: b

212. A precipitous decline in spending often leads to:

a. a recession.

b. equity.

c. equilibrium.

d. efficiency.

ANSWER: a

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